

**BEFORE THE
TENNESSEE REGULATORY AUTHORITY,
NASHVILLE, TENNESSEE**

REC'D TN
REGULATORY AUTH.

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OFFICE OF THE
EXECUTIVE SECRETARY

In the Matter of)
)
Petition of Primus Telecommunications, Inc.)
and Telegroup, Inc. to Permit the Sale and)
Transfer of Assets of Telegroup, Inc. to Primus)
Telecommunications, Inc.)
_____)

PETITION

99-00461

Primus Telecommunications, Inc. ("Primus") and Telegroup, Inc. ("Telegroup") (collectively, the "Parties"), by its undersigned counsel and pursuant to GS-4-112 of the Tennessee Code, hereby request authority to transfer to Primus the assets (including customer base) of Telegroup, an authorized nondominant interexchange carrier that has recently filed for reorganization under Chapter 11 of the U.S. Bankruptcy laws in the U.S. Bankruptcy Court for the District of New Jersey. Furthermore, the Parties seek expedited treatment of this Application to allow the Parties to consummate this transaction quickly.

As discussed more fully below, the asset transfer is being conducted pursuant to a Stock and Asset Purchase Agreement (the "Agreement") conducted under the supervision of the U.S. Bankruptcy Court for the District of New Jersey. The expeditious approval of this Petition will allow Primus promptly to assume responsibility for the service of Telegroup's existing customer base that will inure to the benefit of all customers in Tennessee. In support of this Petition, the Parties respectfully provide the following information:

I. THE PARTIES

A. Primus Telecommunications, Inc.

Primus is a Delaware corporation with principal business office located at 1700 Old Meadow Road, Third Floor, McLean, Virginia 22102. Primus is wholly-owned by Primus Telecommunications Group, Incorporated ("PTGI"), a Delaware holding company publicly traded on the NASDAQ stock exchange under the stock symbol "PRTL."

Information demonstrating Primus' legal, technical, managerial and financial qualifications to provide service, and a tariff containing its Tennessee rates and charges, was submitted with Primus' certification Petition filed with the Authority in Case No. 95-03981, is therefore already a matter of public record, and is incorporated herein by reference. Current financial information for Primus' parent company, PTGI, is attached hereto as Exhibit A.

B. Telegroup, Inc.

Telegroup is an Iowa corporation with its principal business office located at 209 Nutmeg Avenue, Fairfield, Iowa 52556. Telegroup is publicly traded as an over-the-counter stock under the symbol "TGRPQ." On February 11, 1999, Telegroup filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code, 11 U.S.C. § 101, et seq. in the U.S. Bankruptcy Court for the District of New Jersey.

Telegroup provides domestic interstate and intrastate, as well as international, long distance voice, data, and value-added services. Telegroup is authorized to provide resold intrastate interexchange services in 49 states pursuant to certification, registration, or tariff

requirements, or it provides service on an unregulated basis.^{1/} Telegroup was authorized in Tennessee on February 17, 1998 in Case No. 97-00416. The Company also provides interstate and international telecommunications services as a nondominant common carrier pursuant to authority of the Federal Communications Commission ("FCC"), as well as a range of telecommunications services in foreign countries. Telegroup maintains both an international and an interstate tariff on file at the FCC.

Information concerning Telegroup's current officers, directors and existing tariffed rates are on file with the Authority. The Parties ask that these items be incorporated by reference.

II. DESIGNATED CONTACTS

The Designated Contacts for this Petition are:

Catherine Wang, Esq.
Douglas D. Orvis II, Esq.
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W.
Suite 300
Washington, DC 20007
(202) 424-7500 (Tel)
(202) 424-7645 (Fax)

with a copy to:

Robert Stankey, Esq.
General Counsel
Primus Telecommunications, Inc.
1700 Old Meadow Road
Third Floor
McLean, Virginia 22102

^{1/} Telegroup does not provide services in Alaska.

III. DESCRIPTION OF TRANSACTION

Primus determined that it could realize significant economic and marketing efficiencies through Primus's acquisition of Telegroup's assets. Primus and Telegroup are executing the Agreement under which Primus will purchase most of Telegroup's assets.^{2/} This Agreement is part of a reorganization of Telegroup being overseen by the U.S. Bankruptcy Court for the District of New Jersey.

As noted above, Telegroup is in bankruptcy. Primus has determined that the proposed acquisition of Telegroup's assets will enable it to significantly expand its operations in a cost efficient way, thereby enhancing its competitive position and ability to provide an array of high quality services to consumers in Tennessee. At the same time, the Parties recognize that the proposed acquisition will allow customers to be served with high quality services without interruption.

Although the proposed acquisition will result in a transfer of substantially all of Telegroup's assets to Primus, the Agreement will not involve a change in the manner in which Telegroup's customers will receive their telecommunications services, and will be virtually transparent to customers. Specifically, customers will continue to receive the high quality, affordable telecommunications services that they presently receive. Primus will adopt the terms and conditions of the existing Telegroup tariff, thus providing a seamless transition for existing Telegroup customers. Moreover, Telegroup's customers will now receive service

^{2/} The Agreement provides that Primus will purchase most of Telegroup's assets, including all assets used in the provision of telecommunications in Tennessee. The stock purchase portion of the Agreement applies only to Telegroup's international subsidiaries and does not affect the provision of telecommunications services in Tennessee.

from the overall Primus team of well-qualified telecommunications managers. Furthermore, Primus and Telegroup are notifying customers of this transaction and of their change in carrier. As a result, the proposed acquisition will not adversely affect service to Telegroup's customers. Indeed, the acquisition will be virtually transparent to Telegroup's customers in terms of the rates, terms and conditions of services that these consumers receive.

Primus is not requesting that the certificate of Telegroup be assigned to Primus. At the conclusion of the transaction, Telegroup will no longer provide telecommunications services in Tennessee. As such, Telegroup will notify this Authority separately of their intention to cancel their existing certificate, as part of the conclusion of operations being supervised by the Bankruptcy Court.

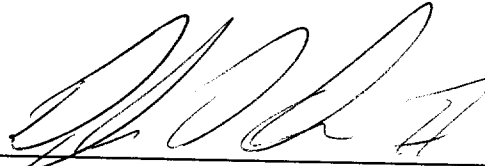
IV. PUBLIC INTEREST CONSIDERATIONS

Telecommunications customers and the general public will realize significant benefits from Primus's acquisition of the assets of Telegroup, including Primus's acquisition of Telegroup's customer base. The proposed transaction will serve the public interest because the combined assets of the companies will accelerate competition by enhancing Primus's ability to compete against established carriers. Approving the transfer of assets and customer base will serve the public interest by promoting competition among providers of telecommunications services to the public. By creating a more effective and multifaceted telecommunications carrier, the proposed transaction will significantly enhance competitive choices for U.S. telecommunications customers, including customers in Tennessee. Therefore, the public interest is served by the Agreement and corresponding transfer of assets.

V. CONCLUSION

For the reasons stated herein, the Parties respectfully request that the Authority authorize the transfer of assets, including the customer base, as described herein. Further, the Parties respectfully request that this authorization be granted on an expedited basis to allow them to consummate the transaction by June 30, 1999.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'C. Wang', written over a horizontal line.

Catherine Wang
Douglas D. Orvis II
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W., Suite 300
Washington, D.C. 20007

Counsel for Primus Telecommunications, Inc.

June 23, 1999

286191.1

EXHIBIT LIST

Exhibit A Financial Information For Primus Telecommunications Group, Incorporated

Verification

EXHIBIT A

Financial Information For Primus Telecommunications Group, Incorporated

PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997
NET REVENUE	\$116,047	\$73,018	\$295,573	\$202,099
COST OF REVENUE	<u>96,557</u>	<u>65,266</u>	<u>249,406</u>	<u>184,478</u>
GROSS MARGIN	<u>19,490</u>	<u>7,752</u>	<u>46,167</u>	<u>17,621</u>
OPERATING EXPENSES				
Selling, general and administrative	23,022	13,749	57,389	35,784
Depreciation and amortization	<u>7,411</u>	<u>1,877</u>	<u>15,322</u>	<u>4,343</u>
Total operating expenses	<u>30,433</u>	<u>15,626</u>	<u>72,711</u>	<u>40,127</u>
LOSS FROM OPERATIONS	(10,943)	(7,874)	(26,544)	(22,506)
INTEREST EXPENSE	(11,456)	(4,893)	(28,235)	(5,570)
INTEREST INCOME	3,364	2,118	8,634	3,377
OTHER INCOME (EXPENSE)	=	<u>58</u>	=	<u>407</u>
LOSS BEFORE INCOME TAXES	(19,035)	(10,591)	(46,145)	(24,292)
INCOME TAXES	=	=	=	<u>81</u>
NET LOSS	<u><u>\$(19,035)</u></u>	<u><u>\$(10,591)</u></u>	<u><u>\$(46,145)</u></u>	<u><u>\$(24,373)</u></u>
BASIC AND DILUTED NET LOSS PER COMMON SHARE	<u><u>\$(0.68)</u></u>	<u><u>\$(0.60)</u></u>	<u><u>\$(1.99)</u></u>	<u><u>\$(1.37)</u></u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>27,998</u>	<u>17,781</u>	<u>23,211</u>	<u>17,780</u>

See notes to consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED BALANCE SHEET
(in thousands, except share amounts)

	SEPTEMBER 30, 1998	DECEMBER 31, 1997
	(unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$179,070	\$115,232
Restricted investments	25,388	22,774
Accounts receivable (net of allowance of \$10,493 and \$5,044)	98,433	58,172
Prepaid expenses and other current assets	<u>14,184</u>	<u>5,152</u>
Total current assets	317,075	201,330
RESTRICTED INVESTMENTS	24,517	50,776
PROPERTY AND EQUIPMENT - Net	127,649	59,241
INTANGIBLES - Net	203,073	33,164
DEFERRED INCOME TAXES	2,391	2,620
OTHER ASSETS	<u>15,185</u>	<u>10,882</u>
TOTAL ASSETS	<u>\$689,890</u>	<u>\$358,013</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$97,338	\$56,358
Accrued expenses and other current liabilities	32,163	13,898
Accrued interest	9,810	11,016
Deferred income taxes	2,740	3,004
Current portion of long-term obligations	<u>26,333</u>	<u>1,059</u>
Total current liabilities	168,384	85,335
LONG TERM OBLIGATIONS	384,670	230,152
OTHER LIABILITIES	<u>527</u>	-
Total liabilities	<u>553,581</u>	<u>315,487</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value - authorized 2,455,000 shares; none issued and outstanding	-	-
Common stock, \$.01 par value - authorized, 80,000,000 and 40,000,000 shares; issued and outstanding, 28,041,692 and 19,662,233 shares	280	197
Additional paid-in capital	234,405	92,181
Accumulated deficit	(94,150)	(48,005)
Accumulated other comprehensive loss	<u>(4,226)</u>	<u>(1,847)</u>
Total stockholders' equity	<u>136,309</u>	<u>42,526</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$689,890</u>	<u>\$358,013</u>

See notes to consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)
(unaudited)

	NINE MONTHS ENDED SEPTEMBER 30,	
	<u>1998</u>	<u>1997</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss		
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	\$(46,145)	\$(24,373)
Depreciation, amortization and accretion		
Sales allowance	15,593	4,494
Stock issuance - 401(k) plan employer match	6,592	4,211
Foreign currency transaction loss	70	-
Changes in assets and liabilities:	-	(407)
(Increase) decrease in accounts receivable		
(Increase) decrease in prepaid expenses and other current assets	(24,728)	(30,454)
(Increase) decrease in other assets	(7,678)	(1,422)
Increase (decrease) in accounts payable	171	(766)
Increase (decrease) in accrued expense, other current liabilities and other liabilities	7,116	45,798
Increase (decrease) in accrued interest payable	(5,378)	1,134
	<u>(1,476)</u>	<u>3,664</u>
Net cash provided by (used in) operating activities	(55,863)	1,879
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment		
(Purchase) sale of short-term investments	(55,933)	(34,667)
(Purchase) sale of restricted investments	-	25,125
Cash used in business acquisitions, net of cash acquired	23,644	(72,521)
	<u>(1,165)</u>	<u>(5,208)</u>
Net cash provided by (used in) investing activities	(33,454)	(87,271)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital leases and long-term obligations		
Sale of common stock, employee option and purchase plan	(4,673)	(14,968)
Proceeds from long-term obligations	4,613	-
Deferred financing costs	159,320	225,000
	<u>(5,500)</u>	<u>(9,500)</u>
Net cash provided by (used in) financing activities	153,760	200,532
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	(605)	(427)
NET CHANGE IN CASH AND CASH EQUIVALENTS	63,838	114,713
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>115,232</u>	<u>35,474</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$179,070</u>	<u>\$150,187</u>

See notes to consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission ("SEC") regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (of normal and recurring nature) which are necessary to present fairly the financial position, results of operations and cash flows for the interim periods. The results for the three months or nine months ended September 30, 1998 are not necessarily indicative of the results that may be expected for the year ending December 31, 1998.

The financial statements should be read in conjunction with the Company's audited consolidated financial statements included in the Company's most recently filed Form 10-K.

(2) Acquisition

On June 9, 1998 the Company completed its acquisition of TresCom International, Inc. ("TresCom"), a long distance telecommunications carrier focused on international long distance traffic originating in the United States and terminating in the Caribbean and Central and South America. As a result of the acquisition, all of the approximately 12.7 million TresCom common shares outstanding were exchanged for approximately 7.8 million shares of the Company's common stock valued at approximately \$138 million.

The Company has accounted for the TresCom acquisition using the purchase method. Accordingly, the results of operations of TresCom are included in the consolidated results of the Company as of June 9, 1998, the date of acquisition. Under the purchase method of accounting, the Company has preliminarily allocated the purchase price to assets and liabilities acquired based upon their estimated fair values. The purchase price allocation reflected in the financial statements is therefore tentative and is subject to changes arising from the receipt of additional valuation and other information.

Pro forma operating results for the nine months ended September 30, 1998 and the year ended December 31, 1997, as if the acquisition of TresCom had occurred as of January 1, 1997, are as follows (in thousands, except per share amounts):

	Nine Months Ended September 30, 1998	Year Ended December 31, 1997
Net revenue	\$359,141	\$428,454
Net loss	\$(55,724)	\$(54,204)
Basic and diluted net loss per share	\$(2.01) 4	\$(2.08)

The pro forma financial information is presented for informational purposes only and is not necessarily indicative of future operations.

(3) Long Term Obligations

Long-term obligations consist of the following (in thousands):

	September 30, <u>1998</u>	December 31, <u>1997</u>
	(Unaudited)	
Obligations under capital leases	\$14,003	\$8,487
Revolving Credit Agreement	23,554	-
Senior Notes 11 3/4%	222,888	222,616
Senior Notes 9 7/8%	150,000	-
Notes payable	558	-
Settlement obligation	-	<u>108</u>
Subtotal	411,003	231,211
Less: Current portion of long term obligations	<u>(26,333)</u>	<u>(1,059)</u>
	<u>\$384,670</u>	<u>\$230,152</u>

On May 19, 1998 the Company completed the sale of \$150 million 9 7/8% senior notes ("1998 Senior Notes Offering") due 2008 with semi-annual interest payments.

As a result of the merger with TresCom, the Company has a \$25 million revolving credit and security agreement (the "Revolving Credit Agreement") with a commercial bank secured by certain of the Company's accounts receivable.

(4) New Accounting Pronouncements

In January 1998, the Company adopted the provisions of Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income (SFAS No. 130). Under SFAS No. 130, the Company's foreign currency translation adjustments are considered to be components of other comprehensive income (loss), and the stockholders' equity section of the accompanying balance sheet has been reclassified accordingly. During the three and nine months ended September 30, 1998 and 1997, the Company's foreign currency translation adjustment totaled \$(1.2) million and \$(2.4) and \$(0.3) million and \$(0.6) million, respectively. For the year ending December 31, 1998, the Company will report its net income (loss) and its foreign currency translation income or loss within a separate statement of comprehensive income (loss).

(5) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

VERIFICATION

AFFIDAVIT

COMMONWEALTH OF Virginia)
)
COUNTY OF Fairfax) ss

I, Robert Stankey, declare that I am General Counsel of Primus Telecommunications, Inc. the Applicant in the subject proceeding; that I have read the foregoing Petition. I affirm that the foregoing is true, accurate and correct to the best of my knowledge, information or belief.

I declare under penalty of perjury that the foregoing is true, accurate and correct to the best of my knowledge, information or belief, this 22 day of June, 1999.

Robert Stankey
Robert Stankey
General Counsel
Primus Telecommunications, Inc.
1700 Old Meadow Road
McLean, VA 22102

Subscribed and sworn before me this 22 day of June 1999.

Margaret P. Velonis
Notary Public

My Commission expires: April 30, 2002